

Message Text

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SUBJECT: FRENCH FINANCE MINISTER ON INTERNATIONAL MONETARY SITUATION AND GERMAN AND US ANTI- INFLATION PROGRAMS

PASS TREASURY AND FEDERAL RESERVE

DURING LUNCHEON MEETING JUNE 15 WITH FRENCH ASSOCIATION OF ECONOMIC

AND FINANCIAL JOURNALISTS, FRENCH ECONOMICS AND FINANCE MINISTER GISCARD D'ESTAING FIELDLED TWO QUESTIONS ON CURRENT INTERNATIONAL MONETARY SITUATION AND ONE ON WHAT HE THOUGHT OF US AND GERMAN PROGRAMS TO FIGHT INFLATION.

(1) MINISTER WAS ASKED HOW HE LIKED HAVING FRENCH FRANC ATTACHED TO DEUTSCHEMARK, BEARING IN MIND DESIRE OF GERMAN AUTHORITIES TO SEE FURTHER REVALUATION OF MARK. HE REPLIED THAT IN HIS MIND, THROUGHOUT MOST OF JOINT FLOAT PERIOD, DEUTSCHEMARK HAD BEEN ATTACHED TO FRENCH FRANC RATHER THAN VICE VERSA, SINCE FRANC HAD BEEN AT TOP OF EUROPEAN SNAKE. HE RECOGNIZED SITUATION HAD ALTERED IN RECENT DAYS. ON BASIS TALKS WITH HIS "GOOD FRIEND" GERMAN FINANCE MINISTER SCHMIDT, HE WAS CERTAIN GERMAN GOVT DID NOT WANT
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TO SEE ANY FURTHER APPRECIATION OF DEUTSCHEMARK.

(2) MINISTER WAS ASKED WHY FRANCE HAD URGED US TO SUPPORT DOLLAR. HE REPLIED THAT FIRST OF ALL THIS WAS PART OF UNDERSTANDINGS REACHED AMONG FINANCE MINISTERS IN EXPANDED GROUP OF TEN MEETING HERE IN PARIS IN MARCH. HE RECALLED THAT CENTRAL BANKS OF CREDITOR COUNTRIES HAD WITHDRAWN FROM EXCHANGE MARKETS, AND THAT IT WAS NORMAL THAT COUNTRY WHOSE CURRENCY WAS DEPRECIATING SHOULD UNDERTAKE RESPONSIBILITY FOR SUPPORT THEREOF. HE SAID THAT HE HAD HAD OCCASION RECENTLY TO TALK TO US AUTHORITIES ABOUT POSSIBILITIES OF INTERVENTION, AND THAT HE FOUND THEM MORE UNDERSTANDING THAN THEY HAD BEEN A FEW WEEKS PREVIOUSLY. HE THOUGHT THAT IT WAS LIKELY IN WEEKS AHEAD THAT THERE WOULD BE " TECHNICAL INTERVENTION" BY US TO SUPPORT DOLLAR RATE. FOR THEIR PART, FRENCH AUTHORITIES WOULD CONTINUE TO SAY THAT SUCH INTERVENTION WAS " VERY APPROPRIATE."

(3) FINALLY, MINISTER WAS ASKED WHAT HE THOUGHT ABOUT US AND GERMAN ANTI INFLATIONARY PROGRAMS. AFTER PREFACING HIS COMMENTS WITH REMARK THAT IT WAS DIFFICULT ENOUGH TO HAVE ANY JUDGMENT ABOUT ONE'S OWN MEASURES, GISCARD SAID THAT HE FELT MEASURES TAKEN RECENTLY BY GERMANS WENT IN RIGHT DIRECTION AND THAT THEY SHOULD HAVE DEFINITE EFFECTS BY ABOUT LAST QUARTER 1973. AS TO US FRENCH HAD BEEN OF VIEW THAT IT WAS CONTRADICTORY FOR AMERICAN AUTHORITIES TO RELAX THEIR

CONTROLS EARLIER THIS YEAR, EVEN THOUGH FRENCH COULD UNDERSTAND THE MOTIVATIONS FOR SUCH A MOVE. THEREFORE, THEY WERE NOT SURPRISED AT PRESIDENT'S DECISION ANNOUNCED WEDNESDAY EVENING. THUS, SAID GISCARD, THE TWO LARGEST AND MOST OPEN ECONOMIES IN WESTERN WORLD WERE

TAKING " SEVERE" MEASURES AGAINST INFLATION. IN THIS CONTEXT, FRANCE HAS CONSIDERED WHETHER ANY FURTHER STEPS ON ITS PART WERE NECESSARY. FRENCH AUTHORITIES HAD CONCLUDED THEY WERE NOT. FRENCH FISCAL POLICY WAS TIGHTER THAN THAT BEING FOLLOWED IN EITHER US OR GERMANY, AND FRANCE WAS APPLYING CREDIT RESTRICTIONS WITH REAL BITE.

THAT, IN THEIR VIEW, WAS ENOUGH. IN LIGHT OF THESE MOVES BY LEADING WESTERN COUNTRIES TO CURB INFLATION, GISCARD PREDICTED WE WOULD SEE REGRESSION OF INFLATIONARY FORCES THROUGHOUT WORLD BY END OF 1973 OR BEGINNING OF 1974. IRWIN

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